

Summary Annual Financial Report 2007



Washington State Department of Retirement Systems

MESSAGE FROM THE DIRECTOR



Sandy Matheson

We know how important your financial security is to you. We're pleased to report that we've completed another year of successful administration of our members' retirement accounts, helping to build that financial security. Our entire staff dedicates themselves to making sure that each account is properly maintained throughout your career and at your retirement.

Ours is a big job that is growing each year. We now manage 15 retirement plans and a deferred compensation plan for more than 550,000 active, inactive (including both those who are vested and those who are not) and retired members. We issue nearly \$2.5 billion dollars each year in retirement payments. Industry experts estimate that on average 75-80 percent of retirement payments are generated from investment returns, making our retirement system a significant economic driver for Washington state.

In addition to properly maintaining your account, our staff continues their dedication to outstanding personal service. Some indicators of that service are:

- Our administrative cost per member continues to be lower than peer pension systems with similar complexity.
- A trained, knowledgeable staff member answers phone calls within an average of 18 seconds, walk-in customers are met by staff in less than two minutes and requests for written pension estimates are filled in an average of less than four days.
- We improved our benefit estimate letters based on member feedback – delivering complex information in plain language and a format easy to understand.
- We're continually updating and improving our education and outreach to keep up with the changes you're facing in your life. Our focus on living healthy to retire well has been positively received.

We hope the theme of growth that we have incorporated into this year's summary of financial information has meaning for you. We recognize that people continue to grow throughout their lives, both personally and financially. Our goal for the next year is to continue to grow our services in ways that will benefit you.

We are proud of the benefits the Washington state pension system provides to those in public service. We are committed to continuing to deliver outstanding service and look forward to serving you in 2008.

Sincerely,

A handwritten signature in black ink that reads "Sandy Matheson". The script is cursive and fluid.

Sandy Matheson, Director

MEMBERSHIP

The State of Washington provides secure, quality retirement plans for public employees. The 15 plans managed by the state’s Department of Retirement Systems serve more than 550,000 current, past and retired employees from state and local government, K-12 and higher education systems, fire, law enforcement and judicial agencies.

Active members, who are currently employed and paying contributions toward retirement, comprise 64 percent of the public pension participation. Remaining members are either retired or have separated from public service.

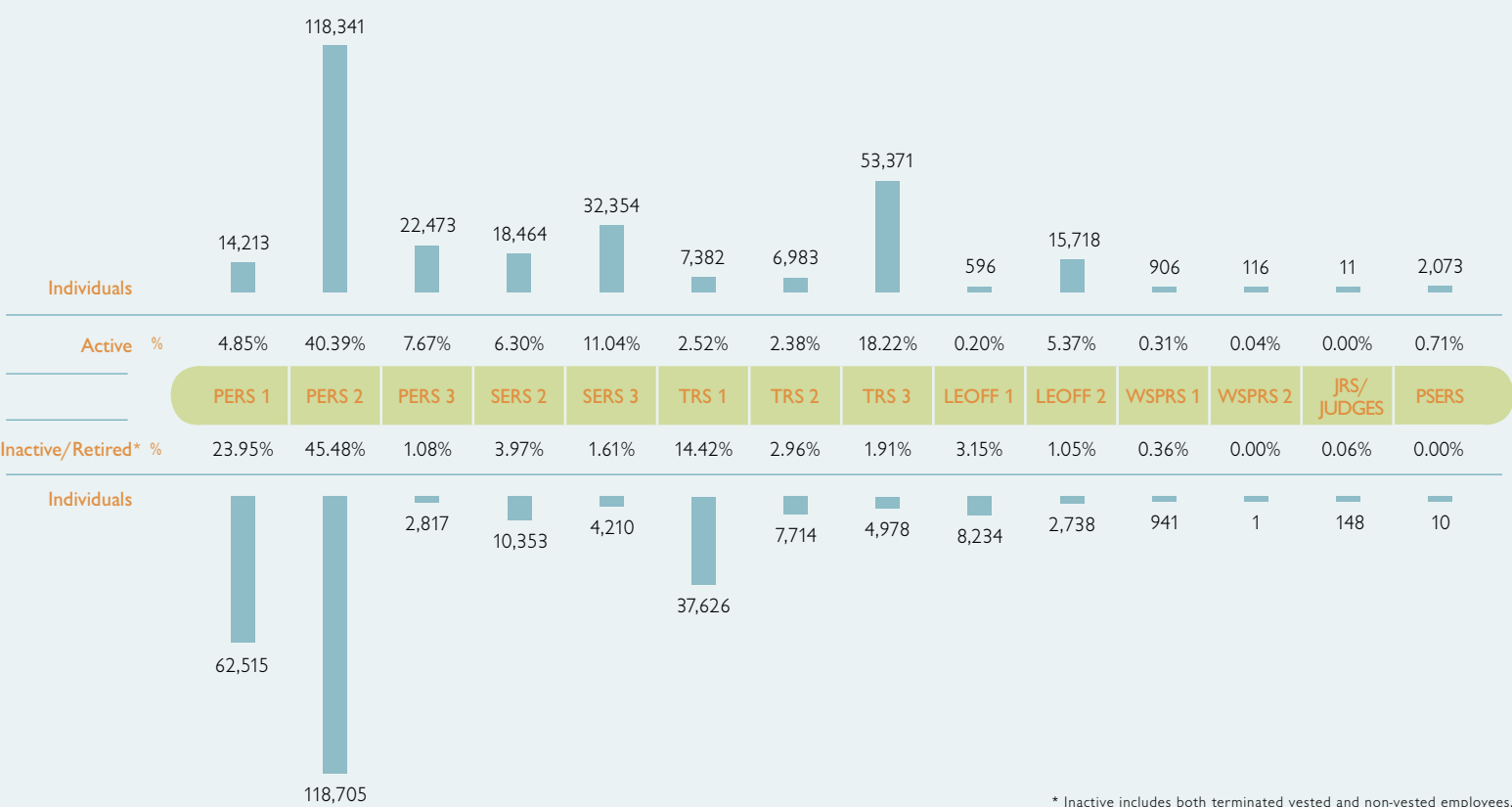
These charts illustrate the number of active and inactive/retired employees participating in the state’s retirement systems.

Our goal for the next year is to continue to grow our services in ways that will benefit you.



MEMBERSHIP BY SYSTEM AND PLAN

(as of September 30, 2006)



* Inactive includes both terminated vested and non-vested employees.

INVESTMENT SUMMARY

The Washington State Investment Board manages retirement fund assets with the statutory requirement to maximize investment returns at a prudent level of risk. The retirement Commingled Trust Fund (CTF) increased by \$10.1 billion during Fiscal Year 2007 to \$63.9 billion. The CTF return was 21.33 percent for the fiscal year.

The table below shows the returns for the CTF on a total fund basis and by asset class.

CTF INVESTMENT RETURNS (as of June 30, 2007)

| ASSET CLASS | U.S. EQUITY | NON-U.S. EQUITY | PRIVATE EQUITY | FIXED INCOME | REAL ESTATE | LIQUIDITY | TOTAL FUND |
|-------------|-------------|-----------------|----------------|--------------|-------------|-----------|------------|
| 1 YEAR (%) | + 20.27 | + 30.74 | + 28.97 | + 6.61 | + 25.20 | + 5.17 | + 21.33 |
| 3 YEAR (%) | + 12.69 | + 25.17 | + 30.23 | + 4.61 | + 25.02 | + 3.64 | + 16.97 |
| 5 YEAR (%) | + 11.95 | + 19.46 | + 20.46 | + 5.70 | + 19.37 | + 2.55 | + 13.99 |

Investment performance is a result of two primary factors: individual asset selection and the allocation of the portfolio among asset classes (e.g. stocks, fixed income, real estate).

Accordingly, the board sets a specific long-term target asset mix and adopts tight ranges around those targets to control the overall risk and return of the CTF. On a daily basis, the board reviews the asset allocation in relation to the established ranges. The staff shifts assets whenever the allocation range for an asset exceeds the approved range or when cash is needed elsewhere. The board reviews changes to the overall asset mix every three to four years.

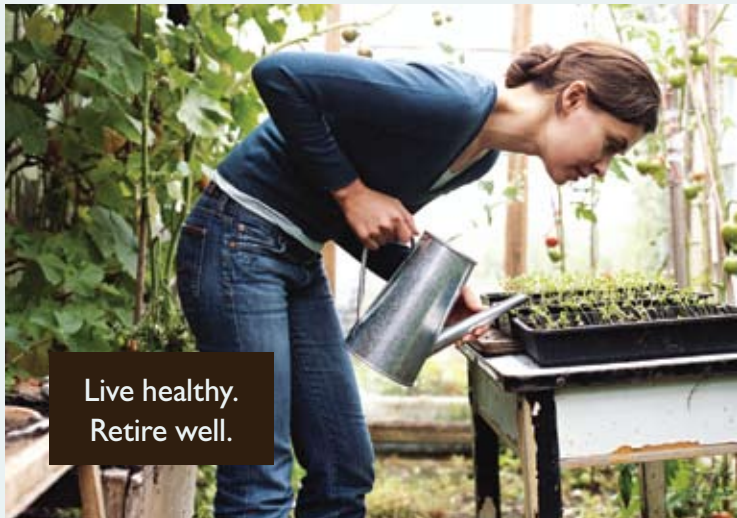
CURRENT ASSET ALLOCATIONS & TARGET ALLOCATIONS (as of June 30, 2007)

| | U.S. EQUITY | NON-U.S. EQUITY | PRIVATE EQUITY | FIXED INCOME | REAL ESTATE | LIQUIDITY | INNOVATION |
|--------|-------------|-----------------|----------------|--------------|-------------|-----------|------------|
| ACTUAL | 23.27% | 23.81% | 18.30% | 23.45% | 11.02% | 0.08% | 0.07% |
| TARGET | 23.00% | 23.00 | 17.00% | 25.00% | 12.00% | 0.00% | 0.00% |

The table to the right shows the ten largest holdings in the CTF's U.S. equity market index fund. The board invests in domestic stocks as part of an equity index portfolio and not as individual stock purchases.

LARGEST U.S. EQUITY HOLDINGS (as of June 30, 2007)

| HOLDING | % OF U.S. EQUITY INDEX FUND |
|------------------------|-----------------------------|
| Exxon Mobil Corp. | 2.91% |
| General Electric Corp. | 2.18% |
| Microsoft Corp. | 1.58% |
| Citigroup Inc. | 1.55% |
| AT&T Inc. | 1.50% |
| Bank America Corp. | 1.47% |
| Pfizer Inc. | 1.20% |
| Procter and Gamble Co. | 1.18% |
| Johnson & Johnson | 1.13% |
| Chevron Corp. | 1.11% |



Live healthy.
Retire well.

FINANCIAL STATEMENT

STATEMENT OF PLAN NET ASSETS: Pension & other employee benefit assets by plan & agency fund (as of June 30, 2007, expressed in millions)

| PENSION ASSETS TOTAL | | | | | | | | | |
|---------------------------------------------------------|--------------|---------------|----------------------------------|---------------|----------------------------------|----------|--------------|--------------|---------------------------------|
| ASSETS | PERS Plan 1 | PERS Plan 2/3 | PERS Plan 3 Defined Contribution | SERS Plan 2/3 | SERS Plan 3 Defined Contribution | PSERS | TRS Plan 1 | TRS Plan 2/3 | TRS Plan 3 Defined Contribution |
| Cash and Pooled Investments | \$6,351 | \$16,247 | \$162 | \$1,658 | \$737 | \$408 | \$7,469 | \$9,368 | \$2,114 |
| Total Receivables | \$75,775 | \$135,034 | \$17,281 | \$22,715 | \$17,394 | \$1,166 | \$61,207 | \$50,302 | \$49,381 |
| Total Investments, Noncurrent | \$12,645,814 | \$19,243,704 | \$1,412,640 | \$2,756,754 | \$1,117,333 | \$13,723 | \$10,679,193 | \$6,791,758 | \$4,163,814 |
| Other Assets | \$447 | \$491 | – | \$45 | – | – | \$384 | \$225 | \$1,000 |
| TOTAL ASSETS | \$12,728,387 | \$19,395,476 | \$1,430,083 | \$2,781,172 | \$1,135,464 | \$15,297 | \$10,748,253 | \$6,851,653 | \$4,214,309 |
| TOTAL LIABILITIES | \$1,202,908 | \$1,832,391 | \$82,130 | \$268,674 | \$83,706 | \$1,252 | \$1,012,320 | \$659,694 | \$244,814 |
| Net Assets Held in Trust for Pension and Other Benefits | \$11,525,479 | \$17,563,085 | \$1,347,953 | \$2,512,498 | \$1,051,758 | \$14,045 | \$9,735,933 | \$6,191,959 | \$3,970,495 |

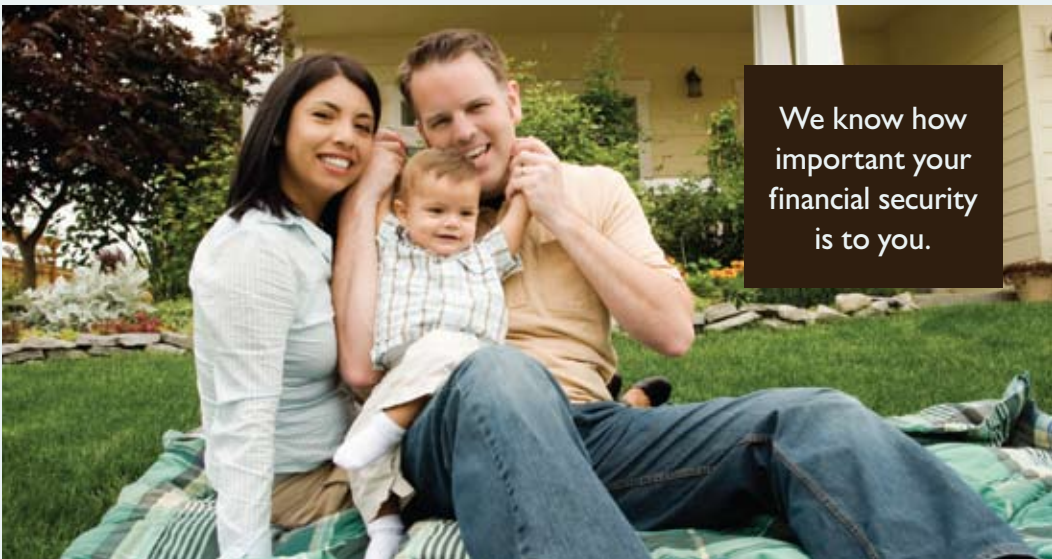
This is a summary of the Comprehensive Annual Financial Report (CAFR), which is presented consistent with generally accepted accounting principles (GAAP). The CAFR is available on our Web site at: www.drs.wa.gov. The agency fund does not have a measurement focus and is presented using the accrual basis of accounting. However, this presentation differs from GAAP in the following respects: financial statement presentation.

ADDITIONS TO PENSION PLAN NET ASSETS

The primary sources of additions to the retirement trust funds include member and employer contributions and investment earnings. The main sources of additions to the deferred compensation plan include participant contributions and investment earnings. The increase from Fiscal Year 2006 is primarily due to higher net investment income, as well as increased member, employer and state contributions.

Additional sources and their totals are listed below (expressed in millions).

| ADDITIONS | FISCAL YEAR 2007 | FISCAL YEAR 2006 |
|-------------------------------------------------|------------------|------------------|
| Retirement Contributions | \$1,460.9 | \$1,030.0 |
| Deferred Compensation Participant Contributions | \$175.1 | \$168.0 |
| Net Investment Income | \$11,945.4 | \$8,157.3 |
| Charges for Services | \$26.8 | \$27.2 |
| Other Additions | \$22.4 | \$20.6 |
| TOTAL | \$13,630.6 | \$9,403.1 |



(in thousands)

ALS

AGENCY

TOTALS

| | LEOFF Plan 1 | LEOFF Plan 2 | WSPRS Plan 1/2 | JRS | JUDGES | JRA Defined Contribution | Deferred Compensation | Dependent Care | June 30, 2007 | June 30, 2006 |
|-------|-----------------|-----------------|-------------------|-------|---------|-----------------------------|--------------------------|-------------------|---------------|---------------|
| 4,28 | \$2,015 | \$2,914 | \$954 | \$113 | \$3,989 | \$7 | \$2,426 | \$656 | \$57,902 | \$39,690 |
| 9,374 | \$37,395 | \$40,069 | \$5,883 | \$16 | \$16 | – | \$1,893 | 1 | \$515,521 | \$488,370 |
| 3,122 | \$7,045,983 | \$5,679,397 | \$1,058,037 | \$467 | \$206 | \$20,324 | \$2,547,547 | – | \$75,176,002 | \$63,473,988 |
| – | \$226 | \$114 | \$30 | – | – | – | – | – | \$1,962 | \$1,672 |
| 4,924 | \$7,085,619 | \$5,722,494 | \$1,064,904 | \$596 | \$4,211 | \$20,331 | \$2,551,866 | \$657 | \$75,751,387 | \$64,003,720 |
| 4,105 | \$667,425 | \$536,277 | \$100,307 | \$49 | \$209 | – | \$201 | \$657 | \$6,692,305 | \$5,902,387 |
| 0,819 | \$6,418,194 | \$5,186,217 | \$964,597 | \$547 | \$4,002 | \$20,331 | \$2,551,665 | – | \$69,059,082 | \$58,101,333 |

gov or can be obtained by calling us toll-free at 1-800-547-6657. As with the CAFR, the pension trust funds in this summary are presented using the flow of economic resources measurement focus and financial data for the dependent care special revenue fund is not included, only selected financial data rather than financial statements are included, and this report only contains abbreviated note disclosures.

DEDUCTIONS TO PENSION PLAN NET ASSETS

The retirement systems' primary fund deductions include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members and the cost of administering the retirement systems.

Benefit payments to members, including pension and annuity benefits, totaled \$2,334 million for Fiscal Year 2007. Refunds totaled \$305.4 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$27.7 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.

PENSION PLAN DEDUCTIONS

| | |
|--------------------------|-----|
| Benefits | 88% |
| Refunds of Contributions | 11% |
| Administrative Expenses | 1% |

FUNDING

Valuations are performed for all DRS-administered retirement systems on a yearly basis (October 1 through September 30).

The actuarial value of assets available as of the latest actuarial date, September 30, 2006, for all systems was \$47,775 million. The accrued liability was \$52,776 million. The accrued liability exceeds the net actuarial value of assets available for benefits by \$5,001 million.

The ratio of assets to liabilities is 91 percent, compared to 88 percent last year. Current contribution rates remain in keeping with the goal of attaining a funding ratio of 100 percent by the amortization dates applicable to each plan, as required by the Revised Code of Washington, chapter 41.45.

The numbers shown in this report will vary from those shown in the State Actuary's Valuation Report. The Comprehensive and Summary Annual Financial Reports represent an accounting of the annual liabilities and required contributions, using methods set by the Governmental Accounting Standards Board. The Valuation (or Funding) Report issued by the State Actuary uses actuarial assumptions and methods prescribed by the Legislature to calculate the contributions that will be required, under existing funding policy, over the life of the plans.

SUMMARY OF PLAN PROVISIONS

| PLAN | MEMBERSHIP ELIGIBILITY | VESTING | RETIREMENT ELIGIBILITY | BENEFIT |
|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PERS Plan 1 (By 9/30/77) | State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, classified employees of school districts, district/municipal court judges, and some employees of the Supreme, Appeals, and Superior Courts | After five years of eligible service | After 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service | 2% of average final compensation (AFC) per year of service Judicial Benefit Multiplier (JBM) participants: 3.5% of AFC per year of service |
| PERS Plan 2 (On or after 10/1/77) | Same as PERS Plan 1, except classified school district employees; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3 | After five years of eligible service | At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service | 2% of AFC per year of service JBM participants: 3.5% of AFC per year of service |
| PERS Plan 3 (On or after 3/1/02) | Same as PERS Plan 2; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3 | Varies | At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion) | 1% of AFC per year of service (defined benefit portion)* JBM participants: 1.6% of AFC per year of service |
| SERS Plan 2 (On or after 9/1/00) | All classified employees of school or educational service districts | After five years of eligible service | At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service | 2% of AFC per year of service |
| SERS Plan 3 (On or after 9/1/00) | All classified employees of school or educational service districts | Varies | At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion) | 1% of AFC per year of service (defined benefit portion)* |
| TRS Plan 1 (By 9/30/77) | All certificated public school employees who work in an instructional, administrative or supervisory capacity | After five years of eligible service | Any age with 30 years of service, or at age 60 with five years of service or at age 55 with 25 years of service | 2% of AFC per year of service JBM participants: 3.5% of AFC per year of service |
| TRS Plan 2 (On or after 10/1/77 and by 6/30/96) | All certificated public school employees who work in an instructional, administrative or supervisory capacity | After five years of eligible service | At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service | 2% of AFC per year of service |
| TRS Plan 3 (On or after 7/1/96) | All certificated public school employees who work in an instructional, administrative or supervisory capacity | Varies | At age 65 if vested, or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion) | 1% of AFC per year of service (defined benefit portion)* |
| LEOFF Plan 1 (By 9/30/77) | All full-time, fully compensated law enforcement officers and fire fighters | After five years of eligible service | At age 50 with five years of service | 20 years of service = 2% of final average salary (FAS) per year of service 10-19 years of service = 1.5% of FAS 5-9 years of service = 1% of FAS |
| LEOFF Plan 2 (On or after 10/1/77) | All full-time, fully compensated law enforcement officers and fire fighters | After five years of eligible service | At age 53 with five years of service or a benefit at age 50 with 20 years of service reduced 3% for each year under age 53 | 2% of FAS per year of service |
| WSPRS Plan 1 (On or after 8/1/47 and by 12/31/02) | Commissioned employees of the Washington State Patrol | After five years of eligible service | At age 55 or after 25 years of service | 2% of average final salary (AFS) per year of service |
| WSPRS Plan 2 (On or after 1/1/03) | Commissioned employees of the Washington State Patrol | After five years of eligible service | At age 55 or after 25 years of service | 2% of AFS per year of service |
| JRS (On or after 8/9/71 and by 6/30/88 - New judges on or after 7/1/88 join PERS Plan 2 or 3) | Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts | After 15 years of service | At age 60 | 15 years of service = 3.5% of AFC per year of service 10-14 years of service = 3% of AFC |
| Judges (By 8/8/71) | Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts | After 12 years of service | At age 70 with 10 years of service or any age with 18 years of service | 1/2 of monthly salary |
| PSERS (On or after 7/1/06) | All full-time public safety officers at select state agencies, counties and cities, except Seattle, Spokane and Tacoma | After five years of eligible service | At age 65 with five years of service, at age 60 with 10 years of service, or at age 53 with 20 years of service (reduced 3% for each year under age 60) | 2% of AFC per year of service |

*PERS, SERS and TRS Plan 3 are defined benefit plans with a defined contribution component. Employers contribute to the defined benefit portion of the plan. Employees determine their own contributions. The defined contribution portion of the benefit depends on the member's contribution level and on investment performance.

DRS publishes handbooks describing the rights and benefits for each system and plan, including disability and survivor benefits. These handbooks are provided to members by their employers. They are also available from DRS and on the Web site at www.drs.wa.gov. For more information, contact DRS at 1-800-547-6657. To receive this publication in an alternate format, call (360) 664-7097.

PENSION SYSTEM ROLES AND RESPONSIBILITIES

| ORGANIZATION | RESPONSIBILITY | MEMBERSHIP AND CONTACT INFORMATION |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Department of Retirement Systems (DRS) | Collects and accounts for employer and employee contributions; maintains retirement records; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation and Dependent Care Assistance Programs. | The Governor appoints the director of DRS. P.O. Box 48380, Olympia, WA 98504-8380 Tel: (360) 664-7000, in Olympia, or toll-free at 1-800-547-6657 • www.drs.wa.gov |
| Legislative Fiscal Committees | Review and report on retirement bills to the full Legislature. | The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee. House Appropriations Committee P.O. Box 40600, Olympia, WA 98504-0600 Tel: (360) 786-7573 or toll-free 1-800-562-6000 (Legislative Hotline) • www1.leg.wa.gov/legislature Senate Ways and Means Committee P.O. Box 40482, Olympia, WA 98504-0482 Tel: (360) 786-7715 or toll-free 1-800-562-6000 (Legislative Hotline) • www1.leg.wa.gov/legislature |
| Select Committee on Pension Policy (SCPP) | Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation. | Composed of four active retirement system member representatives, two retiree representatives, four employer representatives, eight state legislators and the directors of the Department of Retirement Systems and the Office of Financial Management. Contact through the State Actuary's office: P.O. Box 40914, Olympia, WA 98504-0914 Tel: (360) 786-6140 • www1.leg.wa.gov/scpp |
| Pension Funding Council (PFC) | Adopts economic assumptions for pension funding and member and employer pension contribution rates for PERS, SERS, TRS, PSERS, LEOFF Plan 1 and WSPRS. | Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Appropriations Committee. Contact through DRS. |
| Office of Financial Management (OFM) | Advises the Governor on pension and funding policies and issues. | The Governor appoints the director of OFM. P.O. Box 43113, Olympia, WA 98504-3113 Tel: (360) 902-0555 • www.ofm.wa.gov |
| Washington State Investment Board (WSIB) | Invests and accounts for pension funds. | Membership consists of the director of DRS; the state treasurer; the director of the Department of Labor and Industries; a state senator; a state representative; an active member of PERS, SERS, LEOFF and TRS; and a retired member of one of the seven retirement systems. P.O. Box 40916, Olympia, WA 98504-0916 Tel: (360) 956-4600 • www.sib.wa.gov |
| Office of the State Actuary (OSA) | Acts as an advisory agency to the Legislature and DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor factors. | The State Actuary is appointed by the Select Committee on Pension Policy. P.O. Box 40914, Olympia, WA 98504-0914 Tel: (360) 786-6140 • osa.leg.wa.gov |
| Employee Retirement Benefits Board (ERBB) | Provides recommendations to the WSIB on self-directed investment options for defined contribution plans; determines the payment options available for Plan 3 members; ratifies administrative charges assessed to members who participate in self-directed investment options; and provides recommendations on investment options for the Deferred Compensation Program. | Nine active and retired representatives of TRS, PERS and SERS, a Deferred Compensation Program participant and two investment professionals appointed by the Governor. The DRS director chairs the board. |
| DRS Advisory Committee | Serves in an advisory role to the director of DRS on retirement administrative issues. | Members represent active and retired members of the retirement systems administered by DRS. |
| LEOFF Plan 2 Retirement Board | Policy-making board that studies pension issues, acts as fiduciary of LEOFF Plan 2, sets contribution rates and actuarial assumptions, and recommends pension policy to the Legislature for LEOFF Plan 2 members. | Membership consists of representatives from the Legislature, law enforcement, fire fighters and employers. P.O. Box 40918, Olympia, WA 98504-0918 Tel: (360) 586-2320 • www.leoff.wa.gov |



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